Attracting investments and closing the finance gap for water and sanitation in Europe

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Background: large financing gap for water supply and sanitation

- Large gap between financial needs and current levels of expenditure in water supply and sanitation in EU member States (OECD, 2020)
  - To reach the SDGs, national targets and EU technical directives
  - Requiring large additional expenditures
  - Balancing with affordability to users
- Though lacking detailed analysis for non-EU member States, World Bank estimates these to be high, up to 0.27% of GDP in Central Asia and Caucasus to reach safely managed services
- GLAAS report (2019):
  - Only 8 of the European countries report on whether they have undertaken analyses of financial sufficiency
  - Out of which 4 indicate large financial gaps
Background: large financing gap for water supply and sanitation

• Needs
  – Having a better – more detailed and disaggregated – insight into the current finance gap at country level
  – Identifying strategies to reduce the gaps

• Providing frameworks, approaches and tools for doing so
Understanding all the life-cycle costs...
... in relation to the sources of finance

Source: SWA, 2020
... and the possible gap between them

- **TrackFin:**
  - Methods tool to track financial flows in the water and sanitations sector
  - Provides the evidence base for WASH financing decisions
  - Provides framework for obtaining reliable financial data and establishing national WASH accounts
Estimated additional expenditures needed to reach water sanitation targets

Source: OECD, 2020
Possible ways to reduce the gap

• Reducing the costs, whilst still reaching the same level of service
  – Efficiency improvements
  – At some point it goes at expense of service level

• Increasing one or more of the sources of finance

• Using repayable finance to fill the gap now, and pay back later

• These can be applied – to different levels of extent - to each of the life-cycle cost categories
Possible ways to lower costs

• Lowering per capita investments by more efficient tendering, procurement and implementation processes

• Reducing non-revenue water, both in terms of physical and commercial losses, so that costs and revenue are in better balance
  – E.g. through utility performance improvement programmes

• Seeking finance at lowest costs, for example via sovereign(-guaranteed) loans
  – E.g. via national public development banks, such as the Netherlands Water Boards Bank, or Ilbank (Turkey)
Possible ways to increase sources of finance

• Increasing the amounts of public finance for investments - as far as fiscal space allows
  – Increasing large share of national or local tax revenue to water and sanitation
  – Increase total tax revenue

• Increasing tariff revenue
  – Tariff levels through regulatory reviews
  – Billing and collection efficiency of utilities – closely related to utility performance improvement
  – Promoting and supporting household investments through self-supply (e.g. Scotland)
Possible ways to increase repayable finance

- Spectrum of forms of repayable finance
- For different investments sizes and credit-worthiness of the loan takers
- Ranging from micro-credit for household sanitation or small entrepreneurs to bond-financing for metropolitan utilities

Source: Gietema, van Oppenraaij and Fonseca (2017) for the 2017 International Amsterdam Water Week
From possible ways to strategies

• ... but all easier said than done
• These possible ways require a number of foundational issues – or preconditions – in three areas
  – Government strategies and regulation
  – Service provider performance (management)
  – Supply of finance
• Establishing and strengthening foundations needs to be an integral part of the strategies
• Feasibility and effort for that will differ

Source: Porries et al. 2019
From possible ways to strategies

• SWA handbook for Finance Ministers therefore lists these in terms of:
  – potential to reduce the gap
  – degree of reform required
From possible ways to strategies: examples

- **Maximizing existing resources**
  - Sector level financial strategy and planning
  - Utility performance improvement programmes
  - Utility/sector incentive-based finance
  - Improving subsidy targeting

- **Mobilize more funding**
  - Tariff regulation, and ensuring its compliance
  - Increase budget share and/or have earmarks for water and sanitation in taxes

- **Increase repayable finance**
  - Mobilizing domestic public development banks for water and sanitation
  - Municipal development funds, also for clusters of smaller municipalities, and sector revolving funds
  - Establishing service providers’ credit worthiness
  - Microfinance approaches in relation to self-supply
  - Aggregation of service providers and municipalities to access loans
  - Project preparation facilities

- **Innovative and least-explored approaches**
  - Climate funds
  - Social impact bonds
From possible ways to strategies

• Many of these strategies are interlinked and need to be sequenced
  – Attracting repayable finance for utilities will only be possible...
  – ...if these make efficient use of existing resources and have a stable and reliable revenue from tariffs...
  – ...which in turn requires strong frameworks for performance and tariff regulation
  – ...in addition to having bankable projects...
  – ...which require upfront (public) investments in utility performance improvement programmes and project preparation facilities
Conclusions: towards a water and sanitation sector finance strategy

• The financial gap to reach water and sanitation targets in many countries is estimated to be very high

• Cannot be reduced by 1 or 2 single measures – needs comprehensive strategy at sector level
  – Assessment of the gap between costs and sources of financing
  – Identification of the possible ways to reduce the financial gap
  – Identification of the extent to which the foundational elements are in place to enable that
  – Sequencing and relations between the specific strategies, and the upfront investments required to reach them
  – Responsibilities and commitments for implementation
Conclusions: towards a water and sanitation sector finance strategy

• Number of global resources and process available to support countries in that

• Alignment with Protocol on Water and Health
  – Target setting
  – Strengthening governance as precondition for attracting finance
  – Work programme on finance
Thank you, and questions?

Selected resources

- TrackFin methodology [https://apps.who.int/iris/bitstream/handle/10665/259899/9789241513562-eng.pdf;jsessionid=5F17E3D1EE52C1E141A1FE0AFF8EAE2?sequence=1](https://apps.who.int/iris/bitstream/handle/10665/259899/9789241513562-eng.pdf;jsessionid=5F17E3D1EE52C1E141A1FE0AFF8EAE2?sequence=1)
- Foundations for attracting finance [https://www.ircwash.org/resources/mobilising-finance-wash-getting-foundations-right](https://www.ircwash.org/resources/mobilising-finance-wash-getting-foundations-right)